

## Message Text

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17

ACTION NEA-12

INFO OCT-01 ISO-00 AID-20 CIAE-00 COME-00 EB-11 FRB-02

INR-10 NSAE-00 RSC-01 TRSE-00 XMB-07 OPIC-12 SPC-03

CIEP-02 LAB-06 SIL-01 OMB-01 NSC-10 SS-20 STR-08

CEA-02 AGR-20 L-03 H-03 PA-04 PRS-01 USIE-00 INT-08

SCEM-02 INRE-00 NSCE-00 SSO-00 EA-11 DRC-01 /182 W  
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O R 180615Z DEC 73

FM AMEMBASSY TEHRAN

TO SECSTATE WASHDC IMMEDIATE 4824

INFO AMEMBASSY JIDDA

C O N F I D E N T I A L TEHRAN 8881

E.O. 11652: GDS

TAGS: ENRG, ETRD, IR

SUBJECT: GOI FACES OIL EXPORT/RAW MATERIALS SUPPLY DILEMMA

REF: A. TEHRAN 6277 B. TEHRAN 8574 C. TEHRAN 8727 D. TEHRAN 870  
E. TEHRAN 8707 F. NEW DELHI 14283 G. TEHRAN 8561

1. SUMMARY: SEVERAL RECENT INCIDENTS AND KAYHAN INTERNATIONAL EDITORIALS INDICATE THE GOI IS AGAIN GRAPPLING WITH THE RELATED PROBLEMS OF HOW TO ASSURE ACCESS TO THE RAW MATERIALS AND FOOD-STUFFS IRAN NEEDS AND OF HOW AND AT WHAT PRICE TO SEEL ITS OIL. MEANS BEING DEBATED INCLUDE BARTER, USE OF OIL "LEVERAGE" TO OBTAIN NEEDED GOODS, INVESTMENT IN NON-OIL RESOURCES ABROAD, AND APPEALING FOR SPECIAL CONSIDERATION BASED ON POLITICAL TIES. INTERTWINED IN THIS DISCUSSION IS THE GOI'S ATTITUDE TOWARD THE CURRENT STATE OF OIL MARKETS: WHILE ECONOMIC NATIONALISM REQUIRES THAT IRAN NOT REFUSE TO TAKE ADVANTAGE OF PRESENT ABNORMALLY HIGH PRICES, ITS BASIC INTEREST IS IN STABILITY CONDUCIVE TO A HEALTHY WESTERN ECONOMY AND IN STABLE ACCESS TO WESTERN PRODUCTS AND MARKETS. WHILE WE UNDERSTAND THE DIFFICULTIES OF GIVING SPECIAL CONSIDERATION TO ONE NATION WITH PROBLEMS OF  
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THIS SORT, WE BELIEVE USG COULD GLEAN CONSIDERABLE GOOD WILL THROUGH A SINCERE ATTEMPT TO EXPLORE POSSIBILITIES FOR COOPERATION WITH THE GOI. END SUMMARY.

2. WE UNDERSTAND MINECON ANSARY HAS RECENTLY ASKED NUMEROUS PRIVATE COMPANIES FOR INFO ON THEIR RAW MATERIAL SUPPLY. HE APPARENTLY INTENDS TO PUSH FOR MORE BARTER ARRANGEMENTS INVOLVING OIL. RECENT TRADE OPPORTUNITY CABLES (REFS C AND D) REPORTED NIGC'S SEARCH FOR CASING FOR DRILLING PROGRAM ON QESHM ISLAND, AND JAPANESE OFFER TO TRADE TUBULAR GOODS FOR OIL. MITSUBISHI REPRESENTATIVE RECENTLY TOLD US HE HAS HEARD FROM GOOD SOURCES THAT NIOC SALE OF ADDITIONAL 700,000 TONS OF CRUDE TO POLAND (SEE REFS A AND B) WAS SWAP FOR PVC BADLY NEEDED BY IRANAINS. REF F FROM NEW DELHI REPORTS CONCERN THAT INDIAN IMPORTS OF PHOSPHORIC ACID AND DIAMMONIUM PHOSPHATE FROM IRAN COULD BE AFFECTED IF IRAN UNABLE TO IMPORT SUFFICIENT PHOSPHATE ROCK. NUMEROUS IRANIAN INDUSTRIALISTS HAVE CONTACTED EMBASSY COMMERCIAL UNIT SEEKING SUPPLIES OF VARIOUS RAW MATERIALS, BUT WE HAVE HAD LITTLE OR NO RESPONSE TO TRADE OPPORTUNITY CABLES. ALL THESE FACTORS, TOGETHER WITH PM'S REMARKS TO AMBASSADOR (REF E) AND NEWSPAPER EDITORIALS REPORTED BELOW, INDICATE RENEWED AND DEEP CONCERN OF GOI RE SUPPLY OF NEEDED COMMODITIES.

3. KAYHAN INTERNATIONAL EDITORIAL OF DECEMBER 12 TITLED QUOTE LINES OF SUPPLY AND OIL EXPORTS UNQUOTE DECLARES QUOTE IT IS BASICALLY A VERY WISE POLICY TO TIE EXPORTS OF A SCARCE COMMODITY SUCH AS OIL WITH A GUARANTEED LINE OF SUPPLY FOR INDUSTRIAL AND AGRICULTURAL RAW MATERIALS. UNQUOTE EDITORIAL CALLS ON GOI TO PREPARE DETAILED INVENTORY OF NEEDS AND THEN TO SEEK TO MEET THEM THROUGH USING QUOTE OIL EXPORTS AS A LEVER. UNQUOTE THE EDITORIAL ECHOES THE PM'S REMARK ON QUOTE BASIC REVISIONS IN OUR FOREIGN TRADE POLICY, UNQUOTE NOTES THE PRESENT CHAOS IN WORLD ECONOMIC AND MONETARY SYSTEMS AND CONCLUDES: QUOTE THIS (CHAOS) EXPLAINS OUR CONCERN NOT ONLY TO SECURE REAL VALUE FOR OUR OIL, BUT ALSO TO OBTAIN TRADING ADVANTAGES. BUT OUR DEVOTION TO FREE FLOW OF INTERNATIONAL TRADE REMAINS UNCHANGED. WE MUST CONTINUE TO CAMPAIGN FOR LAW AND ORDER IN WORLD TRADE. UNQUOTE.

4. KAYHAN INTERNATIONAL OF DECEMBER 13 CARRIES EDITORIAL ENTITLED QUOTE FINDING NEW INVESTMENT OPPORTUNITIES. UNQUOTE CONFIDENTIAL

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EDITORIAL NOTES RECENT TENDER MAY IMPLY ENORMOUS INCREASE IN IRAN'S REVENUES: QUOTE THE PRICE AT WHICH IRAN SELLS THE BULK OF ITS CRUDE TO THE INTERNATIONAL MAJORS WILL NOT RISE BY NEARLY SO MUCH. BUT IT WILL GO UP SUBSTANTIALLY AFTER JANUARY 1. A FIFTY PERCENT INCREASE ABOVE PRESENT PRICES IS NOT OUT OF THE QUESTION: PERSIAN GULF CRUDE COULD BE FETCHING \$10 PER BARREL BEFORE LONG. WHAT THIS MEANS IN TERMS OF REVENUE FOR IRAN IS SLIGHTLY MIND-BOGGING. IT HAS BECOME COMMONPLACE TO SAY THAT IRAN, UNLIKE OTHER PG OIL PRODUCERS, CAN USE ALL THE MONEY IT CAN EARN. THIS IS STILL THE CASE...BUT THE SPEED WITH WHICH REVENUES ARE RISING SUGGESTS THAT DOMESTIC ABSORPTIVE CAPACITY WILL BE FULLY STRETCHED. ADDITIONAL INVESTMENT...MUST TAKE ON NEW AND LESS CONVENTIONAL FORMS. UNQUOTE IN THIS SITUATION,

THE EDITORIAL CONCLUDES, THE TIME IS RIPE FOR IRAN TO MOVE IN THREE AREAS: A. TO INVEST ABROAD IN FIRMS THAT PRODUCE RAW AND PROCESSED MATERIALS REQUIRED BY DOMESTIC INDUSTRY. QUOTE THEPUBLICSECTOR IS EXPLORING JOINT VENTURE PROSPECTS ABROAD IN FOOD PRODUCTION, FOR EXAMPLE. THE PRIVATE SECTOR MUST SOON FOLLOW SUIT: UNQUOTE B. TO NEGOTIATE QUOTE WITH INDUSTRIAL TRADING PARTNERS FOR SECURE SUPPLIES OF PARTICULAR AND ESSENTIAL COMMODITIES. PROBABLY FEWER THAN TWENTY LINES OF PRODUCTS WILL BE INVOLVED; UNQUOTE AND C. TO ENTER TO GREATER EXTENT INTO DOWNSTREAM, FULLY INTEGRATED OIL OPERATIONS.

5. WHILE THE IRANIANS STRUGGLE BETWEEN IDEAS OF UNRESTRICTED TRADE AND TRADE THAT WOULD TIE OIL EXPORTS TO COMMODITY IMPORTS, THEY ALSO HAVE MIXED FEELINGS ON THE SUBJECT OF PRESENT HIGH OIL PRICES. EDITORIALS SUCH AS THE FOREGOING INVARIABLY MENTION IRAN'S DESIRE FOR STABLE MARKETS. COURT MINISTER ALAM COMMENTED TO THE AMBASSADOR THAT THE RESULTS OF NIGERIAN AND NIOC TENDERS HAVE CREATED CHAOS IN MARKET AND QUOTE SOMETHING REALLY OUGHT TO BE DONE ABOUT IT. UNQUOTE YET NATIONALISTIC AND PRACTICAL IMPERATIVES (AS NOTED IN REF G) MADE TENDER ONLY RATIONAL WAY TO SELL NIOC CRUDE. AMOUZEGAR TOLD AMBASSADOR THAT AT NOVEMBER 17 OPEC MEETING IN VIENNA HE HAD COMPARED NOTES WITH ARAB OIL MINISTER OF PRICES BEING OFFERED FOR PERSIAN GULF CRUDES, AND HAD BEEN SHOCKED TO HEAR FIGURES ABOUT TWICE WHAT HE HAD HEARD IN TEHRAN AS POSSIBLE NOGOTIATED PRICES FOR IRANIAN OIL. AMOUZEGAR SAID HE HAD CALCULATED THAT THE IMPLIED DIFFERENCE IN REVENUE WOULD BE ABOUT \$800,000,000 (PRESUMALY FOR CALENDAR 1974), WINDERED WHO WAS GETTING EH BENEFIT OF THIS, AND CABLED CONFIDENTIAL

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SHAH. ON HIS RETURN, HE WAS SUMMONED TO THE PALACE AND QUESTIONED BY THE SHAH, WHO THEN ORDERED AN INVESTIGATION. THE TENDER WAS THE RESULT. COURT MINISTER ALAM LATER NOTED THAT TENDER WAS AMOUZEGAR'S IDEA, AND THAT IT MET SOME OPPOSITION WITHIN GOI FROM MANY WHO FEARED IT WOULD UPSET DOWNSTREAM COMMITMENTS UNDER NEGOTIATION. (COMMENT: TIMING OF AMOUZEGAR'S AUDIENCE WITH THE SHAH MATCHES INFORMATION AN EMBOFF RECEIVED FROM RELIABLE NIOC

SOURCE THAT ON EVENING OF NOVEMBER 22, DR. DGHBAL CALLED THE SOURCE AND ONE OF HIS OWN CLOSE AIDES TO ACCOMPANY HIM TO NIOC HEADQUARTERS, OPEN THE SAFES OF NUMEROUS EXECUTIVES, AND COLLECT ALL DATA ON SALES FOR STUDY BY SHAH. END COMMENT.)

6. WE BELIEVE IT WOULD BE USEFUL FOR THE DEPARTMENT AND OTHER AGENCIES TO TAKE INITIATIVE WITH IRANIAN EMBASSY IN EXPRESSING INTEREST IN THESE PROBLEMS, WHICH ARE SO OBVIOUSLY OF CRUCIAL IMPORTANCE TO THE GOI, AND TO OFFER TO EXPLORE WITH GOI WAYS IN WHICH USG MIGHT BE OF ASSISTANCE. WE ARE AWARE, OF COURSE, AS ARE THE IRANIANS, THAT IT IS EXTREMELY DIFFICULT FOR US TO ENTER INTO A SPECIAL BILATERAL TRADE ARRANGEMENT WITH ONE NATION, TO ATTEMPT MAKE QUASI-BARTER ARRANGEMENTS OR TO ATTEMPT ASSURE SUPPLIES OF SPECIFIC COMMODITIES. IT WOULD BE TO OUR ADVANTAGE,

HOWEVER, TO MAKE THE EFFORT TO FIND SOME WAY TO ASSIST THE GOI.  
HELMS

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## Message Attributes

**Automatic Decaptioning:** X  
**Capture Date:** 10 MAY 1999  
**Channel Indicators:** n/a  
**Current Classification:** UNCLASSIFIED  
**Concepts:** PETROLEUM, POLICIES, SALES, CENTRAL GOVERNMENT, ECONOMIC REPORTS  
**Control Number:** n/a  
**Copy:** SINGLE  
**Draft Date:** 18 DEC 1973  
**Decaption Date:** 01 JAN 1960  
**Decaption Note:**  
**Disposition Action:** RELEASED  
**Disposition Approved on Date:**  
**Disposition Authority:** golinofr  
**Disposition Case Number:** n/a  
**Disposition Comment:** 25 YEAR REVIEW  
**Disposition Date:** 28 MAY 2004  
**Disposition Event:**  
**Disposition History:** n/a  
**Disposition Reason:**  
**Disposition Remarks:**  
**Document Number:** 1973TEHRAN08881  
**Document Source:** ADS  
**Document Unique ID:** 00  
**Drafter:** n/a  
**Enclosure:** n/a  
**Executive Order:** 11652 GDS  
**Errors:** n/a  
**Film Number:** n/a  
**From:** TEHRAN  
**Handling Restrictions:** n/a  
**Image Path:**  
**ISecure:** 1  
**Legacy Key:** link1973/newtext/t19731257/abqcekol.tel  
**Line Count:** 167  
**Locator:** TEXT ON-LINE  
**Office:** ACTION NEA  
**Original Classification:** CONFIDENTIAL  
**Original Handling Restrictions:** n/a  
**Original Previous Classification:** n/a  
**Original Previous Handling Restrictions:** n/a  
**Page Count:** 4  
**Previous Channel Indicators:**  
**Previous Classification:** CONFIDENTIAL  
**Previous Handling Restrictions:** n/a  
**Reference:** A. TEHRAN 6277 B. TEHRAN 8574 C. TEHRAN 8727 D. TEHRAN 870 E. TEHRAN 8707 F. NEW DELHI 14283 G. TEHRAN 8561  
**Review Action:** RELEASED, APPROVED  
**Review Authority:** golinofr  
**Review Comment:** n/a  
**Review Content Flags:**  
**Review Date:** 26 DEC 2001  
**Review Event:**  
**Review Exemptions:** n/a  
**Review History:** RELEASED <26-Dec-2001 by martinml>; APPROVED <10-Jan-2002 by golinofr>  
**Review Markings:**

Declassified/Released  
US Department of State  
EO Systematic Review  
30 JUN 2005

**Review Media Identifier:**  
**Review Referrals:** n/a  
**Review Release Date:** n/a  
**Review Release Event:** n/a  
**Review Transfer Date:**  
**Review Withdrawn Fields:** n/a  
**Secure:** OPEN  
**Status:** NATIVE  
**Subject:** GOI FACES OIL EXPORT/RAW MATERIALS SUPPLY DILEMMA  
**TAGS:** ENRG, ETRD, IR  
**To:** STATE INFO JIDDA  
**Type:** TE  
**Markings:** Declassified/Released US Department of State EO Systematic Review 30 JUN 2005